



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West provincial legislature and the council on the City of Matlosana

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the City of Matlosana set out on pages xx to xx, which comprise of the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the City of Matlosana as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA)
3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. The financial statements indicate that the municipality incurred a deficit of R298 024 136 for the year ended 30 June 2018 and, as of that date, the municipality's current liabilities exceeded its current assets by R316 630 088. These conditions, along with other matters as set forth in note 40, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised, irregular and fruitless and wasteful expenditure

9. As disclosed in note 42 to the financial statements, unauthorised expenditure of R140 879 370 was incurred in the current year and the unauthorised expenditure of R1 682 312 273 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA.
10. As disclosed in note 43 to the financial statements, fruitless and wasteful expenditure of R51 252 909 was incurred in the current year and fruitless and wasteful expenditure of R152 812 922 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.
11. As disclosed in note 44 to the financial statements, irregular expenditure of R319 473 221 was incurred in the current year and irregular expenditure of R2 428 632 146 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

Material losses and impairment

12. As disclosed in note 33 to the financial statements, electricity losses of 16% (2017: 24%) with a calculated cost of R76 810 462 (2017: R125 446 243) and water losses of 39% (2017: 35%) with a calculated cost of R110 987 654 (2017: R86 088 141) were incurred.
13. As disclosed in note 12 to the financial statements, the consumer debtors' balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R2 573 678 319 (2017: R2 594 131 809) which represents 87% (2017: 90%) of total consumer debtors. In addition, as disclosed in note 27 to the financial statements, contribution to debt impairment provision of R617 011 527 (2017: R543 458 552) were incurred as a result of significant impairment of debtors.

Restatement of corresponding figures

14. As disclosed in note 37 to the financial statements, a number of corresponding figures have been restated as a result of errors discovered during the year ended 30 June 2018.

Material underspending of the budget

15. As disclosed in the statement of comparison of budget and actual amounts the municipality underspent on capital expenditure by R43 949 837 as well as repairs and maintenance by R19 845 611 due to cash flow shortages. As a consequence, the municipality was unable to adequately fulfil its mandate regarding service delivery.

Other matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedule

18. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary

to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

20. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

21. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
22. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

23. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
24. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
25. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2018:

Key performance area	Pages in the annual performance report
KPA 1 – Basic Service Delivery and Infrastructure Development	XX – XX

26. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

27. I did not identify any material findings on the usefulness and reliability of the reported performance information on the selected key performance area of the municipality.

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year.

Adjustment of material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1 – Basic Service Delivery and Infrastructure Development. As management subsequently corrected the misstatements, I did not report any material findings on the usefulness and reliability of the reported performance information.

Report on audit of compliance with legislation

Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
32. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
34. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

Expenditure management

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
36. Reasonable steps were not taken to prevent irregular expenditure of R319 473 221 as disclosed in note 44 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by the bid adjudication committee not properly constituted and not following the correct competitive bidding process. Irregular expenditure of R134 290 151 was incurred on the key projects for the construction of the water supply from Midvaal end point to Jouberton and Alabama, the Alabama 2ML elevated reservoir, the Central activity spine in Jouberton and the 20MVA Substation at Alabama.
37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R51 252 909, as disclosed in note 43 to the financial statements, in contravention of

section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties charged on late payment to creditors.

38. Reasonable steps were not taken to prevent unauthorised expenditure of R140 879 370, as disclosed in note 42 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by insufficient budget for the impairment on the consumer and other debtors as well as interest paid.

Consequence management

39. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.
40. Allegations of financial misconduct laid against officials of the municipality were not investigated, as required by section 171(4)(a) of the MFMA.

Human resource management

41. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the MSA

Procurement and contract management

42. Some quotations and contracts were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
43. Sufficient appropriate audit evidence could not be obtained that bid specifications are unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
44. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.
45. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

Other information

46. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected key performance area presented in the annual performance report that have been specifically reported on in the auditor's report.
47. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
48. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
49. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other

information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

50. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
- Leadership did not adequately monitor management action plans to address prior year audit findings regarding compliance with laws and regulations as well as related internal controls. Although there were resolutions adopted by council to address prior year audit findings, the implementation thereof was mostly done through consultants with limited transfer of skills to own staff.
 - Effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance of staff is monitored, was not implemented.
 - Management's failure to comply with laws and regulations as well as their inability to implement controls to ensure reliable and accurate financial and performance reporting, is a concern. This factor, as well as the continuous non adherence with the council's supply chain management policy without consequences reflects negatively on management's commitment towards a clean administration.
 - Management do not have an adequate risk strategy that addresses identified risks in supply chain management, as well as non-compliance with laws and regulations.
 - The effectiveness of the audit committee and internal audit's role as an assurance provider was compromised by management's inability to adequately address and react to internal audit's findings and recommendations.

Other reports

51. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

52. A consulting firm is performing an investigation at the request of the Premier of the North West province. The investigation was initiated during 2015 based on allegations of possible financial misconduct at the municipality. The investigation is still on-going at date of this report.

Auditor General

Potchefstroom

14 December 2018



AUDITOR - GENERAL
SOUTH AFRICA

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Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance areas and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City of Matlosana ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.